_._ FIRE SAFETY BONDS
Authorization to Issue $10,000,000 Aggregate Principal Amount of General Obligation Bonds, Election of 2002, Series A for the Fire Safety Bond Projects (Measure R).

Contact Person:

Name:	Jake Lavin	Gloria Del Rosario
Title:	Senior Manager	Revenue & Treasury Manager
Dept.:	Development & Environmental Services	Finance
Phone:	510-494-4428	510-494-4789
E-Mail:	jlavin@ci.fremont.ca.us	gdelrosario@ci.fremont.ca.us

Executive Summary: Voters of the City of Fremont approved Measure R in the November 2002 elections that authorizes the City to issue $51 million in general obligation bonds to provide funding to replace three fire stations with new modern stations, build a public safety training center, and make remodeling and seismic improvements to seven existing fire stations. In order to avoid restrictions on the investment of general obligation bond proceeds, the City must spend bond proceeds within two years. Staff has evaluated the project schedule and recommends that the first issue of Fire Safety bonds be an aggregate amount of $10 million, which represents an estimate of total project costs that will be incurred and paid in the next two years. The bonds would be sold in June 2003 and serviced with a special tax levy on all assessable properties in the City of Fremont. The City will determine the annual tax levy after the sale of the bonds. Staff will propose a second bond issue to implement the Fire Safety Bond projects as the proceeds from the first bond issue are nearly expended. Staff recommends that the City Council adopt a resolution authorizing the issuance of $10,000,000 aggregate principal amount of general obligation bonds, Election of 2002, Series A.

BACKGROUND: The Fire Safety Bond measure originated from the Capital Improvement Program process, which identified a large, unfunded capital need in the Fire Department. In November 2001, the Council directed staff to explore options for a revenue measure that could fund public safety related capital improvements. The evaluation of options led to the development of a list of projects and ballot language for a general obligation bond measure focusing on improvements to the Fire Department's facilities. On July 2, 2002 the City Council approved the submission of the Fire Safety Bond to the voters of the City of Fremont at the November 5, 2002 election, with the following ballot language:

Bond measure language:
To improve Fremont's fire safety and emergency response capability by replacing three small, substandard fire stations; strengthening the remaining seven fire stations to better withstand earthquakes and serve the community after an emergency; and building a public safety training center, shall the City of Fremont issue $51 million in general obligation bonds at the lowest interest rates possible, with the moneys deposited in a special account to be used only for these projects? YES NO

The measure passed by a vote of 74.4% of the voters, and staff has begun implementation of the projects. As a first step in the project's implementation, the City Council adopted a resolution on March 25, 2003, that declares the City's intent to be reimbursed from the proceeds of a tax-exempt obligation for expenditures relating to the Fire Safety Bond projects that are incurred and paid prior to the issuance of bonds. This resolution allows the City to incur project costs in anticipation of the bond issuance and get the project moving prior to the bond issuance itself. Staff has been evaluating property acquisition options for the replacement fire stations, negotiating a comprehensive design contract for the retrofit projects, and developing the financing approach discussed in this report.

Staff has also refined the project schedule for the Fire Safety Bond with the following objectives in mind:

- Bid retrofit projects for Fire Stations #4, 5, 7, 9 and 10 in 2004 to take advantage of a favorable construction environment

- Spread projects out so that no more than two existing fire stations are impacted by construction at any one time and so that no more than three total projects are under construction at one time

- Realize efficiencies by packaging projects together for the purposes of design review, bidding. packages, and contract administration.

The table below illustrates the schedule at a very conceptual level. The phasing of construction of new construction will depend on site acquisition, and the schedule will evolve as sites are acquired and the strategy for new construction is refined. For example, the order of new construction projects could change, and staff will explore possible packaging of two or more of the new fire stations.

Current Project Schedule for Fire Safety Bond Projects (D=design, C=construction)

Project	***2003***		***2004***		***2005***		***2006***		***2007***		***2008***		***2009***	
	H 1	***H 2***	***H 1***	***H 2***	***H 1***	***H 2***	***H 1***	***H 2***	***H 1***	***H 2***	***H 1***	***H 2***	***H 1***	***H 2***
Fire Station #7		D	D	D	C	C	C							
Fire Stations #4,5,9,10		D	D	C	C	C	C	C						
Fire Stations #1,3				D	D	D	C	C	C	C	C			
Fire Station #8			D	D	D	D	C	C	C					
Fire Station #6					D	D	D	C	C	C				
Fire Station #2						D	D	D	D	C	C	C		
Training Center								D	D	D	D	C	C	C

Looking at the project schedule, staff believes that project costs in the first two years – covering the period between now and July 2005 – would be between $10-$13 million depending on the need for contingencies and progress of construction. Staff believes the City should use the low estimate of project costs to determine the aggregate amount of the first bond issue because the City can accelerate the timing of a second bond issue if funds are spent faster than expected. If funds are not spent within a two year period, the City would have to restrict the yield it can earn on investing the bond proceeds or refund the excess investment earnings to the federal government. Staff thus recommends that the aggregate amount of the first bond issue be $10 million. The table below provides more specific information on the project activities expected to occur between now and July 2005 and the total costs (including staff costs, contingencies and inflation factors) associated with those activities.

Activities and Budget of Fire Safety Bond Projects (Present – July 2005)

Activity	*Timeframe*	*Cost (incl. Staff, contingency, inflation)*
Site acquisition for replacing Fire Stations #2,6,8	May 03 – April 04	$4.5 M
Retrofit engineering and design of Fire Stations #1,3,4,5,7,9, and 10	Jun 03 – Jul 05	$2 M
Retrofit construction of #4,5,9,10	Oct 04 – Jul 05	$0.9 - $1.9 M
Retrofit construction of #7	Feb 05 – Jul 05	$1.5 - $3.1 M
Conceptual design of replacement fire stations (#2,6,8)	Dec 03 – May 04	$0.2 M
Design of one new fire stations (TBD) through construction documents	May 04 – Jul 05	$0.6 - $0.8 M
Design of second new fire station (TBD) through design development phase	Jan 05 – Jul 05	$0.3 - $0.7 M
Total		$10.0 - $13.2 M

Proposed Financing for Fire Bond projects: The bond measure language specifies that the financing for the Fire Bond projects be general obligation bonds. General Obligation bonds (GO) are secured by an ad valorem tax levy (based on assessed value) determined by the City. In other words, the City pledges to levy the necessary taxes on all assessable property within its jurisdiction to repay the GO bonds. Because of the nature of the security, GO bonds normally have lower borrowing costs than other types of fixed rate debts.

The following is the estimated interest and financing costs based on current market prices. The actual interest rates and financing costs will not be known until the bonds are sold through competitive bidding which will most likely occur in June 2003. The first series (Series A) of the $51 million authorized GO bonds will have an aggregate principal amount of $10 million payable in roughly equal annual amounts over thirty years.

	Estimates
Par amount Financing Costs	$10,000,000
Underwriters fee	50,000
Bond Insurance	35,475
Cost of Issuance (Legal, financial Consultants, credit ratings, Printing, out of pocket	126,995
All-In-Total Interest Cost	4.74%
	(interest coupon plus all of the above costs)

The bonds are tax-exempt from Federal and California income taxes, and carry no reserve requirement. The bonds will have an optional redemption feature that will allow the City to redeem the bonds maturing on or after August 1, 2012. The enclosed Preliminary Official Statement ("POS") describes the proposed bond issue in more detail.

Some costs associated with the Fire Safety Bond projects cannot be paid for with bond proceeds. At this time, staff has not estimated the furnishing and equipping costs associated with the Fire Safety Bond projects. The Capital Improvement Program has two projects related to the retrofit of fire stations (current balance is $79,000) and to the replacement of Fire Station #8 (current balance is $107,000) that can cover these costs. As the Fire Safety Bond project progresses, staff will identify necessary items that cannot be funded with GO bond proceeds and will return to the City Council with a funding plan.

Proposed Financing Team*:* Staff proposes to engage the services of Kelling, Northcross & Nobriga as financial advisor, Quint & Thimmig as bond counsel, and Wells Fargo Bank, as paying agent. Although they have been assisting staff in the preliminary work, their fees are contingent upon the issuance of the bonds.

Collection of taxes and payments to bondholders: On an annual basis, the City Council must adopt a resolution setting the tax rate to pay the debt service on the bonds. Staff will calculate the annual tax rates based on the assessed values of taxable properties and the annual debt service requirement on the outstanding bonds. The annual tax rate may vary from year to year because of changes in assessed valuation and debt service requirement. Once the tax rate is calculated by staff and approved by the City Council by the adoption of a resolution to that effect, the County of Alameda will apply it to all taxable parcels in the City of Fremont. The County places the tax on the property tax bills, collects, and remits the tax to the City. The City, through the Paying Agent, pays the principal and interest on the outstanding bonds to the bondholders.

Based on current market conditions, the City's financial advisor has estimated that the tax levy for this $10,000,000 bond issue will amount to $2.83 per $100,000 in assessed valuation in the first fiscal year (2004), decrease to $2.26 per $100,000 in assessed valuation in the second year, and continue to decrease until the bonds have been repaid. The estimated tax levy when all $51,000,000 in GO bonds are issued, based on initial calculations in the development of the bond measure, will be approximately $10 per $100,000 of assessed value. The actual total tax levy when all bonds have been issued will depend on the dates bonds are issued and market conditions at that time.

Impact on General Fund debt limit: There is no impact on the General Fund debt limit as a result of issuing the Fire Safety bonds. Because the source of debt service payment is the annual ad valorem tax levy on all taxable properties, issuance of the bonds does not affect the General Fund debt limit (7% of General Fund expenditures plus transfers out). The funds from this special tax levy will be held in a separate fund for debt service payments.

Next steps: If the proposed financing for the Fire Bond projects is approved, the financing team will distribute the enclosed Preliminary Official Statement ("POS") and a Notice of Sale ("NOS") to prospective bidders and advertise the sale of bonds in local and national publications. The target date for the sale of bonds is the latter part of June, with the closing on the sale in July. Upon the sale of bonds, staff will return to the City Council with the calculation of the annual tax rate required to pay off the bonds.

ENCLOSURES:

- Resolution authorizing issuance of the bonds.
- Preliminary Official Statement prepared for sale of the bonds.

RECOMMENDATION:

1. Approve the proposed financing to improve and retrofit the City's fire and safety facilities.
2. Adopt the Resolution of the City Council of the City Fremont Authorizing The Issuance of $10,000,000 Aggregate Principal Amount of General Obligation Bonds, Election of 2002, Series A and Authorizing Actions Related Thereto.
3. Authorize the City Manager or designee, to execute a contract with Kelling, Northcross & Nobriga as financial advisor, Quint & Thimmig as Bond counsel, and Wells Fargo Bank, as paying agent.